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SUPPLEMENT TO
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The following economic reports are forwarded for your information:

- a. Cooperatives
- b. Commissioner of the Government for Fuels
- c. Enterprise forms of socialistic economy in Czechoslovakia

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SECRET CONTROL**U. S. OFFICIALS ONLY**COOPERATIVES

Cooperatives in the CSR have been reduced to three types. First are the consumers' cooperatives (spotřební družstva). These cooperatives are still run in accordance with the principles of the old law relating to the cooperative societies. There the principle of obligatory membership for all persons taking part in the activities of the cooperative, which was introduced in production cooperatives, has not yet been imposed. The reason for this is that the consumers' cooperatives were used as one of the means of suppressing capitalistic element in commerce and therefore there was no time for matters of their organization. A considerable extent of freedom is also given by the fact that consumers' cooperatives have been concentrated into large units by the fusion of several small cooperatives (this was gradually taking place since 1945). Thus only such large cooperatives as BRATSTVÍ (BROTHERHOOD), ZÁPADOČESKÉ KONSUMNÍ DRUŽSTVO (WEST-BOHEMIAN CONSUMERS' COOPERATIVE SOCIETY), BUDOUCNOST (FUTURE) etc. remained. In these cooperatives the principle of regional activity has also not been introduced so far as has been done in production cooperatives and, among the consumers' cooperatives, in the housing cooperatives. The regional principle means, according to the decree of POP (peřežnictví, obchod, průmysl - finance, trade, industry) - a commission of the C.P. Hqs - in reality the supreme economic bureau in the CSR) that the activities of such a cooperative may not extend beyond the borders of the respective county or, if the character of the cooperative permits limitation to smaller areas, the activity is restricted to within the borders of a district.

The housing cooperatives, which belong to the consumers cooperatives, are being united - within the framework of the policy which is being drawn up concerning house-ownership - into local units within the community or district. In PRAGUE, the housing cooperatives are being merged into a single unit by the process of normal liquidation according to their constitutions and according to the law relating to the cooperative societies. The cooperative which originated by this fusion is administrated according to areas - the organization is similar to that of a communal housing enterprise. (The communal housing enterprise administrates through its area managements, set up according to districts of the National Committees, those houses which were owned by the community and those which were confiscated, and then all the houses placed under national administration, acting as cumulative national administrator).

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Consumers' cooperatives such as BRATRSTVÍ compete with national enterprises like PRAMEN or OBCHODNÍ DOMY (DEPARTMENT STORES) and so far limits of influence between them have not been defined. The national enterprises are trying to enforce the principle that the consumers cooperatives should mainly supply the provincial districts. They have not succeeded, because the cooperative enterprises have a great influence. This is principally based on the personality of the chairman of the Central Council of Cooperatives Mr. ZMRHAL, but also on the cooperatives section of the C.P. (The chairman of the POP, deputy Mr. FRANK, himself started his career as a cooperative worker). In PRAGUE, during the incorporation of trades into higher socialistic forms, an agreement was made between the cooperative BRATRSTVÍ and the national enterprise PRAMEN with regard to the sharing out of individual shops in various streets of PRAGUE, which of them would belong to which. Thus the tradesman had no choice, and handed over his shop to the enterprise which had the right to it by the agreement. The form of pushing out individual tradesmen was different:

The first attack was the introduction of the general tax. Severe controls of stocks of goods were performed, to which, besides the normal revision organs, members of the police were assigned and above all - as a super-control - a workers' revision. Even the smallest mistake in the list of stored goods or any other fault, such as paying the employees more than the tariff prescribed, was a pretext for the setting up of national administration. The national administration then, in a short time, handed the enterprises over to the respective socialistic creations, either to national enterprises or to cooperatives.

The second attack was the mass transportation of tradesmen to forced labor camps. In these cases, national administration was also established and the result was the same as in the first case. After these two actions the remaining tradesmen - at least many of them - joined the respective set-up mororless voluntarily, and tried, at least, to gain employment with their former enterprise. According to principles, which are in no case legal, but which were the general practice, the intangible assets (the rights of the firm, circle of customers, trade marks) were not taken into account at all, stores in their purchasing value and new ones according to estimates and the shop inventory. The inventory of the shop equipment was rented according to individual agreement, stores of goods were paid for by dividing the purchasing cost into yearly instalments which were not higher than 20,000 Kčs a year. In this way, nearly all the commercial enterprises, including the market booths, were collectively liquidated. Individuals who did not join in these actions, were afterwards forced to do so by individual compulsion.

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Further, there are production cooperatives (vyrobní družstva) also called labor cooperatives (pracovní družstva). Although these cooperatives generally are also based on the law relating to cooperative societies, in reality they act according to the instructions of the Central Council of Cooperatives, based on the decisions of POP. The basic principle of these cooperatives is that all the people (employees), who work permanently with the cooperative, must be members of the cooperative. In order to eliminate the capitalistic attitude of the members towards the cooperative, net profits are not unlimitedly divided among the members (this would create working premises which would disturb the government principle of uniform wage policy). The members only receive a part of the net profits which corresponds to the general interests paid by the state bank for deposited money - according to the size of the share which the respective member holds. Another important principle is that no member has more than one vote at the general assembly of the cooperative - without respect to the number of shares he had subscribed to and paid. A restriction of the number of shares is being planned in the new cooperative law. The remaining profit is used for forming reserves, especially for investments, and the rest is transferred to a special fund of the cooperative enterprises, kept by the Central Council of Cooperative Societies, established in the same manner as the fund of nationalized economy. This fund, however, does not function as yet. The production cooperatives according to issued instructions, are supposed to be restricted regionally to units not reaching further than one country. Insofar as production cooperatives are taking over former private capitalistic enterprises, the procedure is similar to the one adopted with consumers' enterprises, i.e. intangible assets are not taken into account, building and machinery equipment are either purchased or rented according to individual agreements, whereupon the contracted sum of the purchasing cost is transferred to the account of shares and reserves of the cooperative. The former owner, however, receives only a half of the estimated value in the form of shares of the cooperative.

The planning as far as production cooperatives are concerned, is done according to their character and incorporation. Some of them plan on a central basis in a manner similar to the national enterprises, through the respective general management (these cooperatives are gradually nationalized); the majority of cooperatives plan on a country basis through the planning departments of the County National Committees, and some through the Union of Trades (Svaz remesel) (the former trade cooperatives). The Union has an allotted ration of planning numbers at the respective general managements of national enterprises. It is interesting to note that production cooperatives are attached to the private sector of the economy in the planning of financial and material supply, i.e. they take their share only from the remains of economical numbers after the requests of the national enterprises have been satisfied.

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Furthr, there are farming cooperatives (zemedelska durzstva) based on the law pertaining to Uniform Farming Cooperatives(zakon o jed-notnych zemedelskych druzstvech).

The Central Council of Cooperatives is based on a special Act, So~~u~~ are the County Councils of Cooperatives, as organs of unifor cooperative polity and control. Besides financial control they also perform political control by means of their cadre ("pobiti-cal reliability" commissions. Thus the legal condition for the foundation of a new cooperative is the approval of the Central Council of Cooperatives, and the political condition is that members of the managing committee and of the supervising council have to be cleared by the cadre commission. The Central Council clears the proposed members of the managing committee from the point of political reliability before the general assembly takes place and at the essembly nobody may be elected except the already approved candidates. The carde commission naturally supervises also the cadre conditions in the various cooperatives.

For establishing a new production cooperative or for accepting enterprises into such cooperatives it has been ruled that apart from the legal necessities and the already mentioned political measures, approval has to be granted by the following bureaus:

- (1) The respective general management of national production (according to the subject of production, especially with regard to planning and the national corporations' own production interest
- (2) The Central Planning Commission, with regard to the planning allotment.
- (3) The County Committee of the Communist Party from the political point of view.
- (4) The Area National Committee(obvodni narodni vybor), eventually District National Committee from the point of view of local and communal interests.

The chairman of the Central Council of Cooperatives is the member of Parliament and former Minister of Internal Trade Frantisek ZMRHAL. It is generally known that ZMRHAL's position in the Party was shaken after his departure from the Ministry and even the cooperative movement for several months discussed the question whether he should remain at the head of the cooperatives or not. His place in the Ministry was taken over by Frantisek KRAJCIR, and Ladislav KOPRIVA was considered as a suitable candidate for his position in the cooperatives. The entire matter was settled before the Party congress last year when ZMRHAL was elected to the Central Executive Committee against all expectations, and thus also strengthened his position with the cooperatives. ZMRHAL is unpopular in the cooperative movement, not only for his personal qualities but mainly because he does not protect the position of the cooperative movement against the national enterprises. **CONTROL** it

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could be protected considering the ideological possibilities, and as would be necessary from the economical point of view. He is an old man, often ill, of "bourgeois" habits - as they are being called in the Party - and with several personal hatreds. Moreover, he is an autocrat, not susceptible to reasonable arguments. He avoids conflicts within the Party in order to preserve his personal position - at the cost of the cooperative movement and this is the only possible explanation to the fact that cooperatives in some cases are being nationalized, which is contrary to all legal presumptions.

The secretary general of the Central Council of Cooperative Societies is Dr. Pavel KUNZ. He is from South Bohemia and practically shapes the presidium policy of the managing committees of the Central Council of Cooperative Societies, without specific personal form. Personally, he is a respectable man, but without initiative and political position, although a C.P. member.

The head of the most important section of the Central Council of Cooperative Societies, i.e. the section of trade cooperatives, is Ladislav SMRCKA. He is a former member of the National Socialist Party, now an exposed Communist Party member, who does not stress cooperative principles when he feels that it would harm his personal interests. He practically acts only according to ZMRHAL's instructions, eventually to instructions of the cooperative commission in the C.P. Hqs.

The cooperative movement is subordinated to the Ministry of Industry where it has its own section. The head of this section, until February 1948, was fnu PISTORIUS, after February 1948 Dr. Josef BULICEK. He is a former ministerial clerk. Before the war he was a member of the People's Party, since May 1945 he has been C.P. member, and very conceited about his membership. He is an average employee and has no special influence. This is also one of the reasons why the cooperative movement does not have sufficient support in the administration.

Dr. Bulicek's deputy is Dr. VIKTORIN, and Ing. VACEK, son of the Prague Mayor Dr. VACEK, is also employed in that section.

Financing of cooperatives is performed through the State Bank (former Trade Bank - Zivnostenska banka) with which the former Cooperative Bank has been merged with all its personnel. The most influential personality of this bank section is fnu NEZBEDA, a convinced and fanatic Communist, who is also chairman of the bank employees in the Trade Union Council (URO). His political tendency is more in favor of national enterprises and he makes no great problem of choosing means in carrying out his agenda.

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SECRET**CONTROL**COMMISSIONER OF THE GOVERNMENT FOR FUELS.**U. S. OFFICIALS ONLY**

This function ^a performed by Dr. Ing. Jaroslav TICHY who during the last war was manager of the chemical production at the firm BATA at OTROKOVICE (Otrokowitz - P50/0 11). After the war he joined the Communist Party and was for a short time member of the "national sequestration" (narodni sprava) of the firm Bata and then manager general of the Stalin Works. After the nationalization and re-organization of the nationalised enterprises in 1945 and 1946 he was appointed deputy to the manager general of the Czechoslovak Chemical Enterprises. After February 1948 he was nominated manager general of the Czechoslovak Chemical Enterprises and chairman of the economic group "Chemistry" (hospodarska skupina "Chemie"). In 1949 he was attacked by one of the aggressive groups of the C.P. in the management general and there was a great struggle relating to his person in the C.P. itself. Reportedly, only to Prime Minister Zapotocky's support he was able to maintain his position.

However, he was released from the function of manager general but he retained his function of the chairman of the mentioned economic group. Besides that, he was assigned a new function established specially for him, which is called "the commissioner of the government for fuels (zmocnenec vlady pro paliva.) His salary is the same as that of the manager general but this function is attached to the Ministry of Industry where TICHY is assigned in the section of the Vice-Minister RADA and is procuring the connection of the latter with the whole chemical industry. As one of the few experts in hydrogenization of coal (hydrogenisace uhli) he has got special tasks in his function. Within his function of the commissioner of the government for fuels, all kinds of fuels fall under his jurisdiction and he is directly responsible to the government in these matters. Nevertheless, his own activities concern first of all liquid fuels.

In his office the question of the production of liquid fuels from coal is being worked out before anything else, further the question of the exploitation of these fuels and of the waste products. As there is no expert in the Czech nation who would master practically questions connected with the establishment of such a production, a German national living still in the CSR (in Karlovy Vary) Ing. HERGLOTZ was called for assistance and cooperation on this work. In the named office and under the control performed by Ing. TICHY, Ing. HERGLOTZ is supposed to prepare projects relating to construction of two great combinations of industrial plants (prumyslove kombinaty) for the mentioned production. These projects are to be worked out according to HERGLOTZ's experiences and knowledge of the matter concerned by a certain firm in Frankfurt a/M. The realization of one of these huge projects was postponed temporarily because of lack of financial means, the other one is supposed to be realized as soon as possible. The adequate means should have been granted by the government in Summer. Source does not know, however, if this already happened or not. Source does not remember either the name of the firm or the projects.

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Ing. HERGLOTZ owned a technical projecting office at KARLOVY VARY Karlsbad - N51/P 69) before the last war and was owner of ~~the~~ several patents. Some of them are reportedly in use of the KRUPP works. He did not join the NSDAP during the war and for this reason he was allowed to stay in the CSR. He has the named office at KARLOVY VARY until now. His activities concern all branches of mining industry.

Dr. TICHY made two contracts with Ing. HERGLOTZ. The first of them engages him to elaborate a project of plant for hydrogenization of coal and to perform the realization of this project, further to construct the long-distance gas works (dalkova plynarna) and a plant for production of briquettes (briketarna). In the contract there is no place indicated where the combination of industrial plants should be located but ~~the~~ the place of location of this combination the FALKNOV (Falkenau - N51/P 58) area was predestined. This project is not supposed to be realized in the next future and after the conclusion of the contract HERGLOTZ's working program was considerably restricted. The second contract concerned the project and construction of the combination of industrial plants for utilization and working up the paraffin substances (called "parafinove gace") and supervision during the realization of this project. This production is supposed to be performed in connection with the production of the Stalin Works where these by-products cannot be utilized until now. According to both these contracts Ing. HERGLOTZ is obliged to perform supervision of the realization of the mentioned projects and the definitive payment of his reward depends on the accurate final operating of the newly built plants. This reward was settled by a certain percentage of the expenses spent for these buildings. It will be paid off only partly before the building would have been brought to an end. The second project (utilization of the paraffine substances called "parafinove gace") is to be realized in the MOST (Bruex - N51/F 13) area (most probably at KOMORANY. This information is not quite reliable and Source cannot guarantee it.) In any case, this construction means an investment of several hundreds millions Kcs. It is to be realized according to the plans which will be delivered by Ing. HERGLOTZ and worked by the mentioned firm in FRANKFURT a.M. which is represented in the CSR by HERGLOTZ. The machinery equipment will be manufactured in the CSR and the Czechoslovak Engineering Works (Ceskoslovenske strojirny) are supposed to be entrusted by the manufacturing and supplying of this equipment.

For the construction of these plants adequate number of skilled people will be given at disposal to Ing. HERGLOTZ so that all work will be concentrated with Ing. HERGLOTZ and not at the Ministry of Industry. Of course, HERGLOTZ will be subordinated and supervised by Dr. TICHY.

Beside the construction of the mentioned plants according to the contracts Ing. HERGLOTZ is bound to produce a proposal relating to improvements of the production methods of the existing North-Bohemian Briquettes Manufactories (Severoceske briketarna) at KOMORANY near MOST.

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ENTERPRISE FORMS OF SOCIALISTIC ECONOMY IN CZECHOSLOVAKIA.

In the present organization, in the principle, only three types of enterprises are being acknowledged as higher forms of socialist economy: national corporations, cooperatives and communal enterprises. All remaining private or governmental (statni) enterprises are gradually changed to one of these forms.

A special category form the so called sole-trade corporations which, because of their contact with foreign countries, are organized on the basis of joint-stock law as it was reformed by a special Joint-Stock Act. The joint-stock shares have been subscribed by the government on one hand and by those national corporations (eventually other enterprises) into the sphere of interest the sole-trade company belongs.

Whereas the national corporations have been organized on basis of special regulations concerning establishment of national corporations, the cooperatives are being established according to the old, still valid, Cooperative Law, although a new bill on this subject is being prepared. Ideological adjustment to the needs of the regime and to the so called "building of socialism" (socialisticka vystavba) is done by means of instructions issued by the Central Council of Cooperative Societies (Ustredni rada druzstev). Of course, these instructions are in the majority prepared in the so called cooperative commission of the Communist Party or at least they have to be approved by this commission as far as they are of a fundamental character. The Central Council of Cooperative Societies eliminates such cooperatives which do not correspond with these principles. As the establishment of new cooperatives depends on approval of the Central Council of Cooperative Societies (according to the Act on Central Council of Cooperative Societies) The Council enforces its influence also in this respect.

Essentially - with the exception of agricultural cooperatives which form a special group - only production (called also working) cooperatives (vubni druzstva) and consumption cooperatives are admitted.

Also the communal enterprises have no legal basis as to their creation and they are based on the ownership of the community towards the enterprise. The extent of their activity, sphere of action, administration, finances and other questions referring to the communal enterprises have been regulated by the directives of the Ministry of Interior in Summer 1950 because the Ministry of Interior is the competent ministry for these enterprises.

The differentiation of jurisdiction, respectively of spheres of interest between the mentioned types had to be determined even for that reason that with the socialization competition started among different groups and this was not bearable from political point of view. Further socialization is namely being performed on the base of so called voluntariness, it is enforced individually or as result of economical restrictions in the whole country

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(e.g. in allotment of raw-materials) thus several contraventions originated when all three types of enterprises applied for one plant. A specially hard struggle was between the national corporation "Pramen" and the consumption cooperative "Bratrstvi".

Besides that, the national corporations claimed a monopolistic status in certain branches of production. Thus a list of production branches was made on which cooperatives may take part and another list of those on which they must not.

General guide-line was worked out by a special commission in the Communist Party called "POP" (peneznictvi, obchod, prumysl - Finance, Trade, Industry). This guide-line regulates the limits of interest and they are, in principle, as follows:
To the national corporations the production of raw-materials (especially first production /prvovyroba/) is reserved, further all production of nominated tasks of the Five Year Plan (in reality production shiftings against the plan took place), all mass production without respect to its kind and production of articles serving for further production of national corporations.

The communal enterprises are especially in charge of enterprises serving for benefit of citizens of the community (funeral undertakers, water supply, canalisation, carting of refuse, billeting offices, matrimonial agencies, local transport - especially taxi-cabs) Further those enterprises which serve to the benefit of the community but not exceeding the frame of a district (e.g. brick-yards, stone-pits, sand-pits, building enterprises, projection offices, saw-mills - all of these as far as they are not of such dimensions that they belong into the sphere of interest of national corporations) further enterprises dealing with repairs as main subject of their activities and finally consumption and handicraft trades. As far as inn-keeping is concerned, large hotels are national enterprises and as to smaller hotels, cafes, restaurants and inns - communal enterprises compete with those trades incorporated in the cooperative program.

The cooperatives are divided into production and consumption ones. Production cooperatives are entrusted with production of final consumption goods on the principle of handicraft (typical popular and artistic production, however also such trades as barbers, room-painters etc.) The consumption cooperatives compete with national corporations especially as far as food shops are concerned whereby the principle is that cooperatives should supply first of all the country, and national corporations should take care of supplying towns, especially large cities. (Therefrom originated the struggle of the cooperative "Bratrstvi" which wants to maintain its position in towns, especially in Prague and the national corporation "Pramen". However, "Bratrstvi" has a very good position - for personal-political reasons. That is the reason why "Bratrstvi" owns still even factory production which would belong to the scheme of production of national corporations.

Special group of cooperatives form the agricultural cooperatives which

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They are up to the present divided into four types.

- (1) Neighbours' mutual aid and preparatory committees of the Uniform Farming Cooperative (JZD).
- (2) An established JZD, common farming, but profits are divided according to acreage.
- (3) Ploughing away of limits. The land is divided into six to eight parts, common stables are built, but profit is divided among the former owners of estates according to their former acreage.
- (4) The soil belongs to the State and is only lent to the cooperative, the workers are rewarded according to the reached profits and absolved working days("trudodny").

The final product of the collectivisation will be the fourth type. The evolution is up to the present not so far as the regime pretends it to be; there are not very many cases in which even the third type had already been reached.

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